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We don't want to operate under a cloud.

Ken Herz, a Chemical New York vice president, on the ambiguity created when the Fed approves but Florida still bans acquisitions of limited-service banks by bank holding companies [Page 1]

Unquote

Chemical Challenges Florida Law On Nonbank-Bank Acquisitions

By BARBARA A. REHM
Washington Bureau

WASHINGTON — With a Federal Reserve Board victory in hand, Chemical New York Corp. charged in a federal court on Monday that Florida's 1984 law banning acquisitions of limited-service banks by bank holding companies is unconstitutional.

The Fed on Friday voted unanimously to permit a Chemical subsidiary, Chemical Trust Company of Florida NA, Palm Beach, to become a limited-service bank and thereby accept deposits and make consumer loans. Chemical Trust will not be allowed to make commercial loans, which means it will not be a "bank," according to the Fed.

Since 1982, Chemical Trust has operated as a federally chartered trust company, offering investment advice, as well as fiduciary, custody, and agency services.

Chemical's new limited-service facility is an expansion of an existing subsidiary, not a new entity. In October 1986, an appeals court in Atlanta ruled that the Fed was authorized to allow New York's U.S. Trust Corp. to expand the powers of its Florida trust company. The Fed's decision does not violate a February 1985 court order prohibiting the Office of the Comptroller of the Currency from chartering any new nonbank banks.

In its approval, the Fed devoted 15

Chemical: Page 30 ➳

Dollar Dry Dock's Financial Centers Are NY's First 'Branches of the Future'

By JEFFREY KUTLER

NEW YORK — Neither Citibank nor Chemical Bank nor any of the other big commercial banks will be the first in New York to convert all of its retail branches into futuristic financial service centers.

That distinction will go to the Dollar Dry Dock Savings Bank, the eighth largest thrift institution in New York State.

By the end of this year, all 23 Dollar Dry Dock offices will breathe life into the artists' renderings that many bankers have been using to project the "branch of the future."

Next week, Dollar Dry Dock heralds its financial center strategy with a grand opening celebration at one of its largest midtown branches, coinciding with a television advertising blitz that is rare for this bank.

As in the artists' drawings that have circulated widely in the bank marketing community, Dollar Dry Dock offers everything from stocks to airline tickets in a setting that more resembles a department store than a typical bank branch.

"We have created a true retail environment. We wanted it to be as inviting to a customer as if he or she were coming in to browse for shoes or a shirt," explained Bruce C. Long, a Dollar Dry Dock executive vice president.

To make the financial center pleasing to the eye, the bank retained Turner Associates as design consultant. It is the architectural firm used by Bloomingdale's, whose flagship department store sits across Lexington Avenue from the headquarters of the old Dry Dock Savings Bank.

The bank, reconstituted since the

Dollar Dry Dock: Page 10 ➳

Merger Will Create Largest Software Firm

Computer Associates to Acquire Uccel with Stock

By DAVID O. TYSON

SAN FRANCISCO — Computer Associates International Inc. and Uccel Corp. announced on Monday that they plan a merger to form the biggest independent vendor of software.

In their latest fiscal years, the two companies had combined revenues of $450 million. Computer Associates proposes using about $800 million in stock to acquire Uccel, a major seller of systems software and bank applications packages.

The merger plan was disclosed at a press conference in New York, not at the national operations and automation conference here. But when word spread, it was Topic A among those attending the annual gathering sponsored by the American Bankers Association.

Investors enthusiastically greeted the announcement. In late afternoon trading, Uccel stock changed hands at $43.50 on the New York Stock Exchange, up $11.50 from its closing price on Friday.

Computer Associates, based in Garden City, N.Y., is a major international vendor of systems software for IBM mainframes, primarily the DOS operating system. It also sells applications software and microcomputer software, but none for banks.

The Dallas-based Uccel, in addition to its prominent position in the market for bank applications software, is a major vendor of systems software for IBM mainframes. Its systems division deals mostly with the OS operating system, although an acquisition has put it into DOS systems as well.

DOS is an operating system for

Merger: Page 30 ➳

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American Banker

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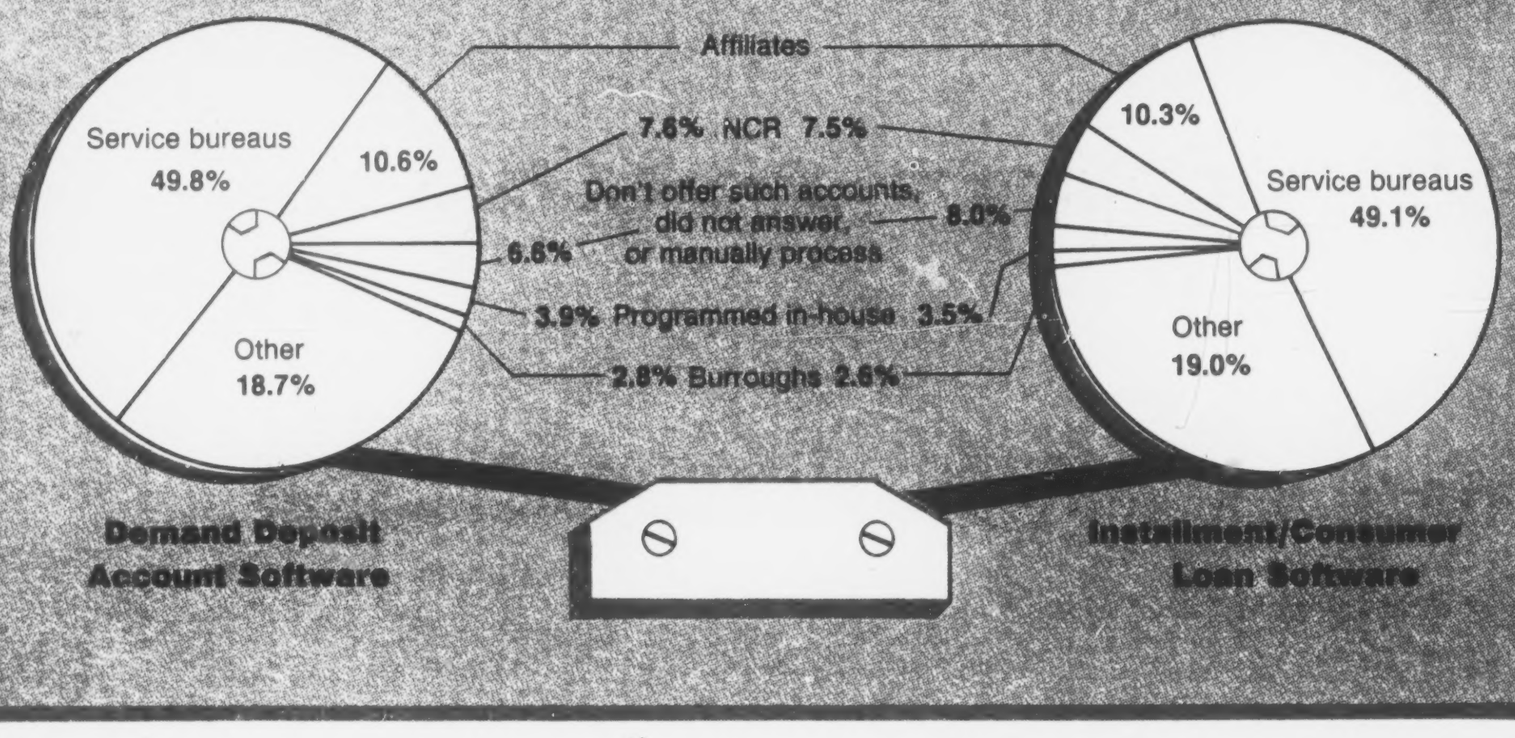


Stanford Kay

Vendors Enter Combat

Marketers of software and remote data-processing services are battling each other for banks' business.

By David O. Tyson

IT MAY NOT be as unsavory as free-for-all mud wrestling, but a battle royal is under way in the arena of banking applications software.

The combatants are mostly the vendors of the software. But joining in also are the vendors that use their own computers to do the job for the banks by remote processing, relieving the institutions of the expense and bother of acquiring and running their own systems.

MTech, the biggest remote processor of all, vows to win back banks that have shifted to in-house processing. Darwin Deason, MTech chairman, predicts only 50 banks will end up doing it themselves.

That view is held by a minority, maybe even a minority of one. The trend is away from third-party processing toward in-house processing. And the in-bank market is what software vendors are fighting over.

Hogan Systems Inc. and Software Alliance Corp., ranked first and second as vendors of primary applications systems to the largest banks, are breaking out of their niche and expanding into the community bank market.

Meantime, the newly consolidated Kirchman Corp., whose affiliates had gained a significant share in the small and medium-size bank market, now claims that it is the only vendor with systems for any size bank.

So no one is safe from competition.

This special section of *American Banker* takes a look at the antagonists. The starting point is the survey of bank equipment and software conducted annually by TransData Corp., American Banker•Bond Buyer Inc.'s market research subsidiary in Salisbury, Md. It shows who held what share of the market last year.

In the TransData tally for year-end 1985 — the latest available — NCR Corp. was far and away the leader in demand deposit account systems. Since this is the most basic bank applications software, it is useful as a market share proxy.

According to TransData, NCR systems are used in 23% of the banks that

Continued on Next Page

David O. Tyson is an American Banker associate editor.

Banks May Do More In-House Processing

A comprehensive survey of the market for banking applications software shows NCR Corp. is the leader by far in sheer numbers of clients.

Though banks are considered pioneers in automation, the TransData Corp. survey also reveals that little more than a third of them use their own computers to run such basic banking functions as checking accounts and consumer installment loans. In-

Continued on Page 18

Continued from Previous Page
do their checking account processing in-house. Its clients are bunched at the low end of the market.

Tables summarizing the TransData survey of demand deposit account and installment/consumer loan software appear on pages 18 and 19. Accompanying articles discuss the results (page 11) and explain the methodology (page 19). A related table with article shows the overall market for mainframe host computers among banks and thrifts (page 17).

Software Agreements

Unlike NCR Corp. and Unisys, International Business Machines Corp. (IBM) sells no banking applications software of its own. Until last year, it sold scarcely any such software at all, leaving the market entirely to the legions of third-party vendors. But a widely accepted precept is that software sells hardware. Recognizing this, IBM has entered into two key marketing agreements with developers of banking applications systems.

In May 1986, IBM struck its famed deal with Hogan, in effect making a partner of that Dallas firm. IBM now markets all Hogan software in North America, so it has plunged into the market for applications systems at the big banks, Hogan's niche. And on March 1 this year, IBM and Kirchman signed an agreement to jointly market systems to community banks.

Bradley Stertz discusses what this means to Kirchman, in an article on page 16. The 19-year-old Orlando, Fla., company is owned 100% by its founder, Kenneth P. Kirchman, whose Dimension line of software is designed for different size banks, from smallest to largest.

Mr. Kirchman expects Dimension 5000, a package still in development, to solve the problem of meshing incompatible systems when banks merge. It will act as a computer bridge so a big bank's systems can communicate with any small bank's Dimension systems.

Though NCR has more mainframes installed in more depository institutions than any other manufacturer, it has been losing market share, mostly to IBM. Why? It had no software for big banks. So when big banks have acquired little banks using NCR, they both have ended up on the big banks' IBM systems, as John Byczkowski reports in an article on page 20.

NCR is coming out with its answer to that problem, breaking out of its small-bank niche to introduce an integrated package called Universal Financial System, or UFS. It is in beta test at seven sites and slated for delivery in September or October. Not surprisingly, in view of the experience of Anacomp Corp., Hogan, and Uccel Corp., NCR has run into delays in bringing the integrated system to market. The target is medium-size banks, with $250 million or more in deposits.

UFS has a feature that enables bankers instead of programmers to write programs. Using what NCR calls Element Structured Programming, a marketing manager and systems analyst can sit at the keyboard of a personal computer and create a new deposit or loan product by selecting blocks of code already in the machine.

Such capabilities in this and other fourth-generation software systems are expected to spur the move toward in-bank processing. They do away with much of the expense of maintaining a staff of professionals to rewrite and modify software as the market demands new products and regulators demand new procedures.

Introducing New Software

One software vendor using fourth-generation languages to shorten the development cycle is Unisys, formed last year in the merger of Burroughs Corp. and Sperry Corp.

As Marc Meltzer reports in the article on page 14, Unisys was to take the occasion of the American Bankers Association's National Operations and Automation Conference in San Francisco to introduce international banking software packages developed completely from fourth-generation languages.

> ***"The trend is away from third-party processing toward in-house processing."***

Unisys sees spending for financial software growing by 20% to 25% annually, much of it coming from institutions updating their old software. And it believes the central information file, or customer information file, will be most in demand as the pivot for integrated systems.

A number of software vendors also are in the service bureau business, doing the data processing for banks either on-line or in batch mode, either by themselves or through affiliates. One of these is Systematics Inc. of Little Rock, Ark., which the TransData results show to be a major factor in the medium-size bank and thrift applications software market.

Others are M&I Data Services, Milwaukee; Datalink Systems Inc., a Mellon Bank affiliate; and NCR. But the biggest is MTech, a subsidiary of MCorp, the Dallas bank holding company.

MTech last year realized about 20% of its $200 million revenues from software. But as David LaGesse reports in the article on page 13, it now will emphasize the software that enables its data processing customers to interface with its own computers.

In-house processing will fade, in the MTech view of things to come. Mr. Deason says that by 1990, no bank with less than $10 billion in assets will depend on its own computer.

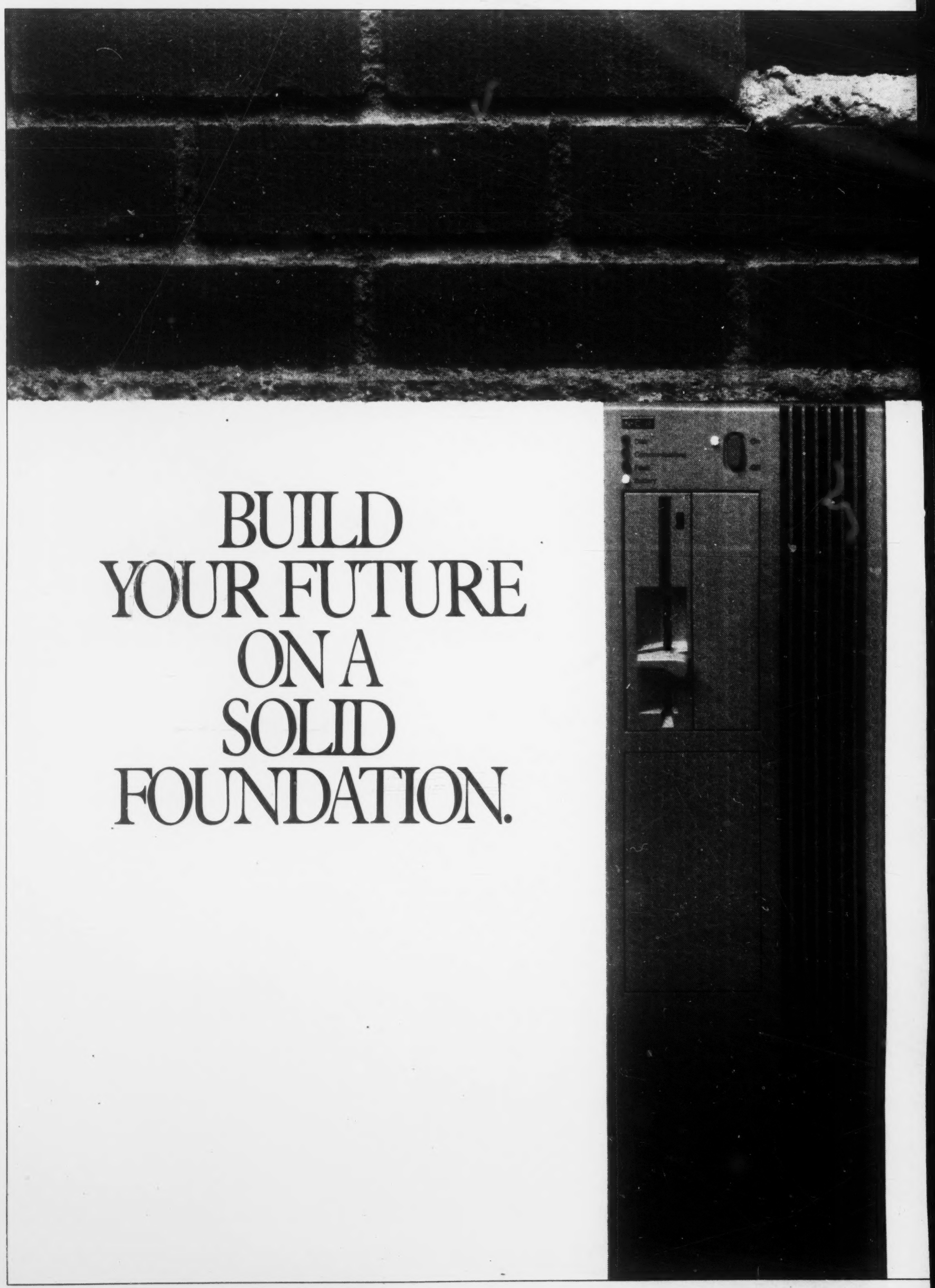
MTech is one of a number of software vendors that trace their origins to the programming departments of banks. Their founders had written the applications software for their institutions and, when it worked well, they figured "Hey, why don't we sell this to others and make some money?"

Yvette D. Kantrow profiles four of these bank-affiliated vendors, starting on page 22. They claim to have a better appreciation of bankers' needs because, after all, they were bankers themselves at one time.

Mellon Bank is the maverick of the group. It is about to offer integrated software developed outside its own shop, by Data-Link Systems of South Bend, Ind., which it acquired in February 1986.

Furthermore, Mellon does not subscribe to the MTech view that most banks will rely on service bureaus eventually. Its strategy is to convert its service bureau clients to software licensees.

Maybe the two could strike a deal: Mellon takes over MTech's software licensees, MTech takes over Mellon's remote processing clientele. ■



TECHNOLOGY REVIEW

The Heart of Processing?

Though many disagree, a vendor of remote data processing says banks will abandon in-house processing.

By David LaGesse

THE COMPUTER ROOM of MTech's new building outside Dallas features walls with windows to allow visitors a look at the Buck Rogers-like equipment inside. The view is one that may impress customers with what MTech officials are convinced is the future heart of financial data processing.

Armed with its impressive hardware and a wide array of software, the company bases its strategy on the view that more banks will abandon in-house computers for the service of a third-party processor to address their basic needs. MTech already is the largest vendor of data processing services for banks.

Software markets will largely fragment, and the widest opportunity is in specialized applications — pieces of the bigger pie, according to the MTech scenario.

The company, which earned about 25% of its $200 million in 1986 income from software, will concentrate on programs that control electronic funds transfers and manage credit cards and credit unions. It also will focus on such new specialties as electronic distribution of food-stamp benefits.

"We think it has paid off not trying to be all things to all people," says Charles M. Young, president of the corporate services group at MTech, which includes its software products.

The market instead will shrink for all-purpose programs that serve banks, predicts Darwin Deason, MTech's chairman.

"Maybe only 50 banks in the country will end up with their own computers that run a fully integrated system," says Mr. Deason.

In this view, Mr. Deason and MTech fly in the face of the widely held belief that a trend is under way for service bureau customers to bring their data processing in-house.

Flush with cash from a stock offering in December, his company is staked to widen its swath through the world of computers in financial institutions. Combined with a $103 million debenture offering in March, the capital gives MTech a formidable war chest that will continue its 30% annual growth — with about half to continue coming from buyouts.

Most of the acquisitions will come in data processing, or the support services that bring recurring income, such as the purchase in May of a microfilm company, says Mr. Deason.

"We're concentrating on the long-term contracted types of services," he says.

Running Software with a Smile

MTech has gone so far as running any major banking software on its IBM computers, with a smile.

Only in the last year and a half has the communications technology been available to allow banks to decentralize their data facilities, says Mr. Deason. Satellites have provided for timely transmissions from remote sites.

Banks with assets of $500 million to $2 billion will largely convert to the MTech type of service within the next couple of years, he says. (Of the 312 banks in that size group at the end of 1985, a TransData Corp. survey shows 146 used vendor software, 84 used in-house software, 40 did their processing through holding company affiliates, and 26 used third-party processors, such as MTech. The remaining 16 did not respond.)

The urgency will vary because of a bank's location, says Robert A. Heckman, MTech executive vice president. The farther a bank is from a large, perhaps money center competitor, the more likely it will feel it can compete locally with data processing facilities, he says.

Recent surveys indicate that the trend of banks taking their basic computer needs in-house in recent years "is substantially slowing now," says Mr. Heckman.

By 1990, Mr. Deason predicts, no bank with less than $10 billion in assets will depend on its own computer.

Third-party processors, then, "I think are the key to survival for mid-size banks," he says.

MTech has de-emphasized its own bank integrated applications software. MTech will enhance its own system designed for a bank's basic needs — its Bank Management Information System. "But we won't be enhancing it to sell it as a software product as such," says Mr. Young.

About 600 banks now use the MTech integrated software that interfaces with the firm's data processing service.

The bulk of its specialized software customers come in the funds-transfer area, which complements the MPact network of automated teller machines that MTech also operates. MTech's wire transfer systems have attracted a number of the nation's largest banks, and the company acquired its specialty in serving credit unions through an acquisition in 1986.

Acquisitions come more easily in a decentralized view of data processing, says Mr. Deason. They fit more easily into his description of MTech as a "holding company" for a variety of data services, each a product in its own right.

Interplay between the business lines at MTech becomes less important. The economies of scale will come in common hardware and support.

"Every key manager is still here from 16 acquisitions so far," he says.

David LaGesse is American Banker's bureau chief in Dallas.

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TECHNOLOGY REVIEW

Addressing the Needs Of Financial Services

Unisys plans to aggressively market software that answers the diverse requirements of financial concerns.

By Marc Meltzer

EVERY BANKER who wants to compete with a brokerage firm, an insurance company, or a travel agency, or wants his bank to merge with another, becomes a target for Mark Roberson.

For Mr. Roberson, vice president of the Detroit-based financial systems division of Unisys Corp., change cannot come quickly enough.

"Bankers today may not be doing the same kind of things next year and the year after," he said. "They may be offering insurance, offering brokerage services, offering travelers services.

"They will need a computer system with the architecture that lets them grow the product, enhances the product quickly, and is responsive to the requirements of the market, and that enables them to do this without great expense. They're looking for systems that are flexible, easily modifiable, and can accommodate to the changing environment in which they operate.

"And it is also important that the software and the system they buy be able to coexist with systems from other companies and other banks. As they get into a network with merger and acquisition activity, it is important to tie systems together of different institutions, without converting to new systems."

Mr. Roberson sees Unisys playing an important role helping banks that are changing rapidly to change successfully.

Unisys was formed last year from the merger of Burroughs Corp. and Sperry Corp. Besides commercial banks, the company is addressing change in the savings and loan, savings bank, and mortgage banking industries. But analysts are unsure about the role Unisys will play in financial services.

"It's never been terribly clear to me what the Burroughs software product really is," said Cato D. Carpenter, computer services analyst at Alex. Brown & Sons, Baltimore. "Since vendors are selling all the IBM software, it's of little consequence what Burroughs is up to."

Noting that IBM mainframes dominate the financial services industry, Mr. Carpenter declared: "No IBM mainframe user would convert to Burroughs. So they [IBM end-users] don't really care what Burroughs is doing. So much software runs on IBM [systems] that Burroughs customers are converting to IBM" products.

Mr. Carpenter said Unisys likely will press on with a defensive strategy and continue to be successful selling software to its existing base of hardware users.

About one-third of the former Burroughs business was in the financial services industry, and Sperry served big banks overseas, said Michael Geran, a computer analyst at F.F. Hutton & Co. Inc.

"Historically, Burroughs has had good operating systems and very efficient software, but they've been a little bit of a laggard versus independent third parties in software applications," he said.

Mr. Geran said the company is "devoting more resources, trying to expand the product software it works on, working more aggressively with third parties."

Old Software, New Opportunity

Unisys stresses the financial services business largely because it believes many institutions are candidates for updating their computer software.

"These are areas that have older software application packages that are looking for updated solutions," said Mr. Roberson.

"The spending rate by these institutions for new software is high. They're looking for solutions and looking for packages now as opposed to doing in-house developments.

"We see the growth rate of expenditures for financial software running at 20% to 25% annually, a very attractive rate for many ventures," he said.

UNISYS

The cost of developing software and maintaining it is escalating, largely because of the age of many users' systems. "The talent to maintain the old software is getting scarce as new packages have become available," Mr. Roberson said.

Many banks developed existing software internally, but Mr. Roberson said the trend is away from that because of the cost of developing and maintaining it. Also, because of rapid change, banks are finding that software can have a short product life.

The industry's greatest demand, he said, is for central information file systems, sometimes called customer information files. The software provides a data base on customers to enhance cross-selling and account profitability analysis.

Many older software packages were not integrated so they could not offer effective central filing. Some of the packages go back 20 years, although they have been updated over time.

"That is why it is important to have a central information file," Mr. Roberson said. "You can pull [information about] an entire relationship a custom-

Marc Meltzer is a business writer based in Philadelphia.

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> ***"The talent to maintain the old software is getting scarce as new packages have become available."***
>
> ***— Mark Roberson***

er has with a bank. If a customer service representative sees that you have a checking account, a loan, and a credit card, she might suggest you open a savings account or a Christmas Club."

$40 Million Plus from Licensing

Newer packages also have been created by the company for demand deposit accounting, savings accounting, time deposit accounting, mortgage loans, installment loans, commercial loans, general ledger, trusts, check processing, and wholesale banking.

Like NCR Corp. but unlike IBM, Unisys writes applications software for its hardware. Other software products come from third-party developers, and Unisys sells those products through marketing arrangements.

Newer software addresses needs for branch automation and networking. It ties together tellers, the new account desk, loan desk, and bookkeeping department, linking them into a centralized system.

Software that provides departmental solutions also is being sold to assist in specialized operations in the bank, such as insurance, trust, and brokerage.

Mr. Carpenter said Unisys likely will grow at an acceptable rate simply because the market for software is so good. "But it's bleak in terms of gaining market share," he said.

The TransData Corp. hardware and software survey for 1985 shows Burroughs had its mainframes in 22% of the banks and thrifts that do their data processing in-house, and about 8% use Burroughs' software for two of the most basic applications — checking accounts and consumer installment loans.

The Unisys financial systems division sells software, hardware, and installation and support services through the 1,500 sales and sales-support personnel throughout the world. They come from inside the company, from banks, and from consulting firms.

Customers do not actually buy the software. The company licenses it, with an option to obtain support services.

About $40 million to $50 million in revenues will come this year from software licensing, including professional services and consulting. Mr. Roberson said he could not provide a breakdown for international operations.

"One of the challenges we face is the stream of products, the diverse requirements of the financial services industry," he said. "Certainly, the cost of developing these is a challenge. To combat that, we're utilizing fourth-generation languages to shorten the development cycle."

Such fourth-generation-language packages are software for writing software. They enable end-users to do the programming themselves, without depending on professional programmers.

Part of the expense, Mr. Roberson said, is development time. The longer the time, the more risk the producer takes that the software, when it does appear in the marketplace, will be out-of-date.

A Neglect of Marketing

Mr. Roberson said there is "no clear leader today in applications software. There are a lot of people with a little piece of the market for software. That is why an opportunity for a leadership position can be claimed."

However, he noted that a number of third parties represent formidable competition, such as Hogan Systems Inc., which has an agreement to provide software for IBM to sell.

Unisys has entered into a number of such joint-marketing agreements. For thrift industry software, it has deals with Information Technology Inc. of Lincoln, Neb., for Infotech software; and with Modular Information Systems Inc. of Orlando, Fla., for Miser software. For commercial bank software, it has an agreement with McDonnell-Douglas Banking Systems Inc. of Birmingham, Ala., for PBS and Premier software. And for credit union software, it has an agreement with Electronic Processors Ltd., also of Birmingham, for Vision software.

"We believe we're going after niche markets with key products," Mr. Roberson said. "We believe the big guys won't massively convert, but there are a lot of opportunities to supplement and augment our growth."

For example, at the American Bankers Association National Operations and Automation Conference in San Francisco, the company was to introduce software packages for international banking developed completely from fourth-generation languages.

Mr. Roberson said Unisys, and its predecessor company, Burroughs, failed to adequately inform the financial services industry about its products.

"Not enough people recognize that we're not only a major computer supplier but also a supplier of software solutions," he said. "So we're trying very hard to correct that mistake."

The company is advertising its products more and seeking industry marketing awards that it overlooked previously.

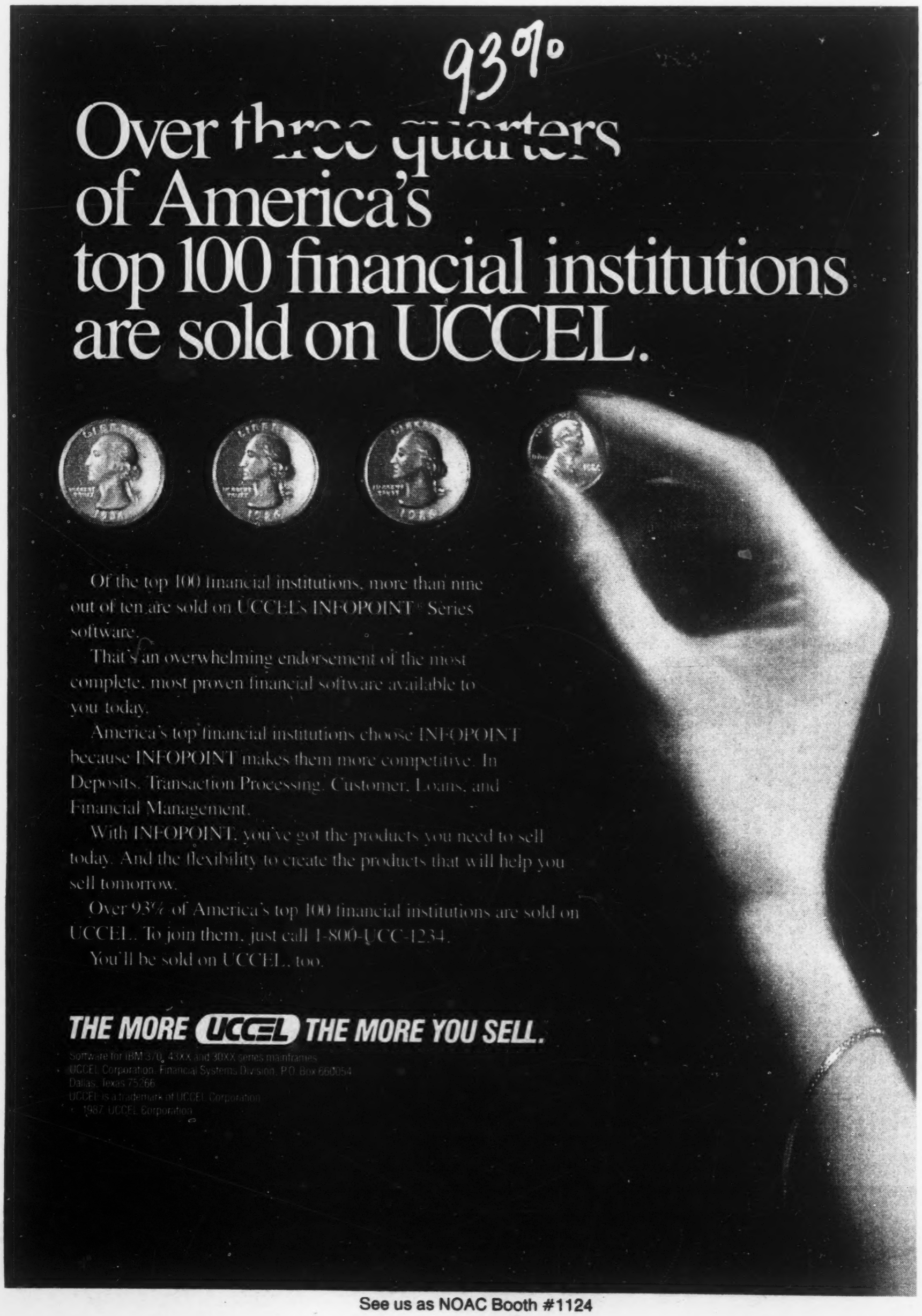
For example, the company was cited by International Computer Programs Inc. for more than $1 million in sales of its Global Financial System and more than $10 million in sales of its Item Processing System software.

But Mr. Carpenter said the company also should learn other lessons.

"The company that spent more time on marketing and sales than on being technically superb was the one that came out ahead," he said. "I imagine IBM always had the edge on sales and marketing over its rivals.

"The customers don't understand what is in the box. The sales guys make the difference. That is true in many ways in the software business, too.

"Some of the more successful software companies didn't necessarily build the best product, but had the best salesmen." ■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TECHNOLOGY REVIEW

A House Divided By Itself Undergoes Unification

One of the largest bank software companies has consolidated its divisions to improve overall business.

By Bradley Stertz

WHEN GLENS FALLS National Bank & Trust Co. in New York considered changing its computer system, it got strong bids from Florida Software Services Inc., which already was its vendor, and Kencom Inc., which badly wanted a new account.

The problem was that Florida Software and Kencom were really the same company — both subsidiaries of Orlando-based Kirchman Corp. Although privately held Kirchman developed into a major player in banking software in the last few years, the company lost some momentum by competing with itself for the same contracts.

"It reached a point where the setup was self-defeating," Kenneth P. Kirchman, founder, president, and chairman of the company, said in an interview. So on Jan. 1 this year, Kirchman's Florida Software Services, Omni Resources Inc., and Kencom Inc. merged into Kirchman Corp.

The consolidation has helped Kirchman streamline its corporate operations. Rather than having three overlapping sales, support, and finance teams, Kirchman is able to focus all its resources on one overall strategy.

"Eliminating conflicts has allowed us to better respond to what a bank needs for its software," Mr. Kirchman said. "The competitiveness was creating a delay in being able to select the best solution for a bank."

Kirchman's restructuring also could foreshadow an initial public offering for the 19-year-old firm. The company currently ranks among the nation's largest bank software companies, but it bumps up against far larger publicly held corporations. In primary applications software for banks with less than $500 million in deposits, Kirchman's Florida Software a year ago ranked third behind NCR Corp. and Burroughs Corp., now a part of Unisys.

But Mr. Kirchman, 52, strongly denies having plans to issue stock to raise capital to compete against the larger firms.

"I still own 100% of this company and don't see any need for having it any other way," he said. "We have a nice-running company right now without the pressure of shareholders and a board of directors only interested in what their stock is worth and whether it is earning dividends."

Indeed, the corporate structure of Kirchman might not work well under public ownership. Of the firm's 300 employees, only about 20 are involved in sales. About one-third of the staff works in research and development.

"Public software companies will typically spend only 12% to 15% on research," said Michael Newes, senior vice president for Kirchman Corp. "The way we're set up, that would be a big constraint."

Mr. Kirchman insists he has not felt the need for additional capital. One big reason is a recent agreement signed with IBM to jointly market community bank systems.

Dealing with IBM

The IBM deal basically calls for Kirchman Corp. to provide software when IBM provides hardware. Kirchman gets the benefit of marketing help from IBM, while IBM can go to small banks and offer a total computer package.

Kirchman also expects the IBM pact to boost its market share along with IBM's. Software from Kirchman companies currently is used by 6,000 banks, including banks that rely on other banks for their servicing. Kirchman has discontinued its software for Burroughs systems.

"We're now a partnership with IBM," Mr. Kirchman said, "in contrast with our previous relationship where we worked at arm's length. We can go in to a banker together and give a total solution. They have a strong track record with hardware and we have the only software that has an answer for a bank, no matter what the size."

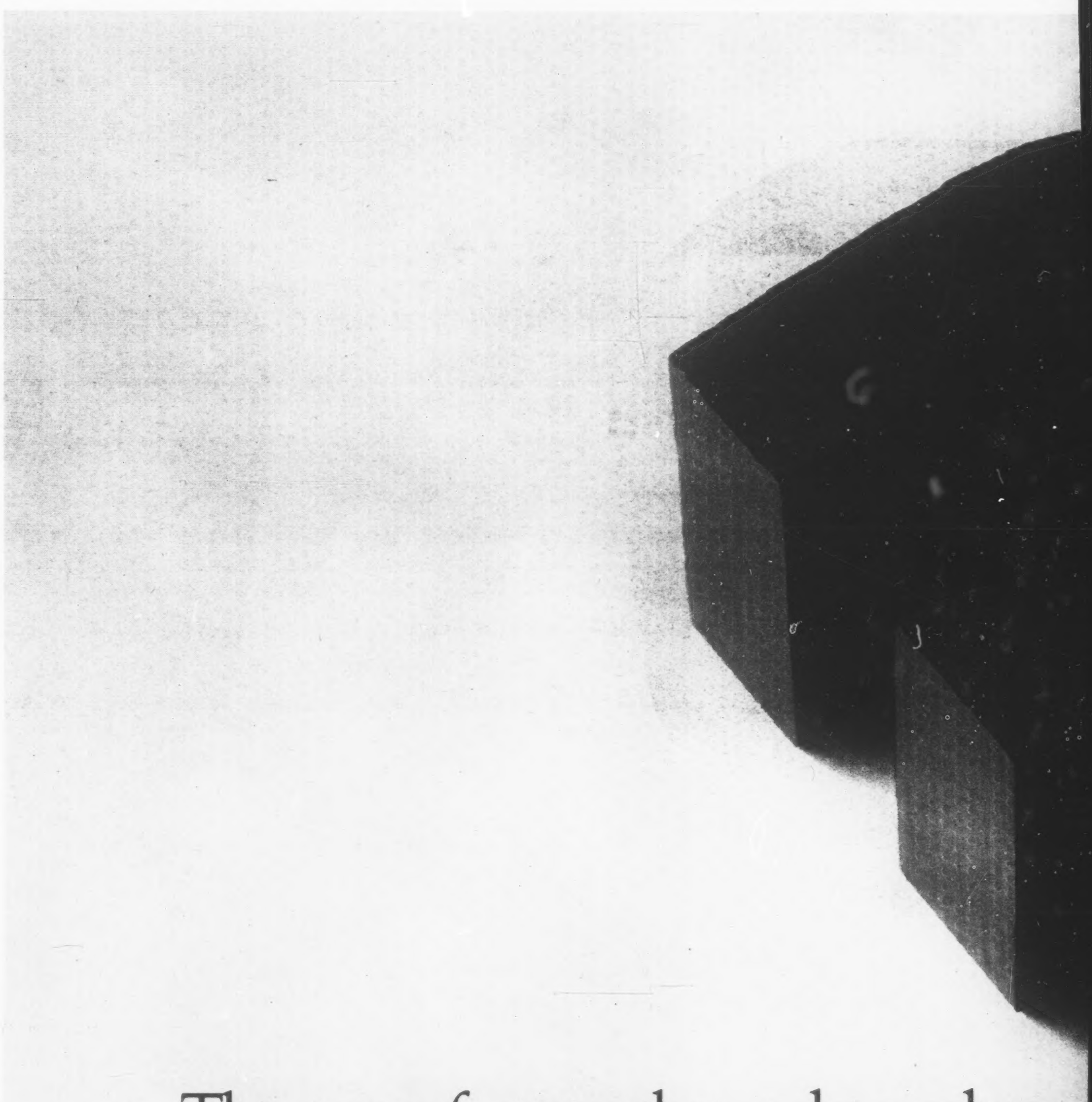
The IBM agreement, a major accomplishment for Kirchman Corp., stems from a technological development that saved the company.

From the start, Kirchman's affiliates wrote custom software for each banking client. The strategy worked, but the business had large swings up and down. The growth of the companies was stagnating.

Then Mr. Kirchman struck upon a solution on an airplane trip. Rather than change the data processing packaging for each bank, he wanted software that

> ***"It reached a point where the setup was self-defeating."***

Bradley Stertz is a financial writer for the St. Petersburg Times.



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THE KIRCHMAN CORPORATION

would let banks set their own control-records parameters with processing that would fall in line.

The concept was not unique, but it led to the formation of Kirchman Corp.'s various Dimension software packages for different sized banks. The packages range from Dimension 1000 (originally an Omni Resources product) for community banks to Dimension 4000 (originally a Florida Software product) for large banks.

It was Dimension that propelled Kirchman Corp. to become one of the largest companies in its field and attracted IBM.

Now Kirchman is working on a software line that will make transitions easier when major banks acquire smaller banks that use a Dimension system. The still unfinished Dimension 5000 will act as a computer bridge that can communicate with smaller Dimension packages at the acquired banks across the country.

"Our dream is to bring local control and management closer to the holding company," Mr. Kirchman said. "It will set up a communications system that's the same for Citicorp in Florida as it is in California. It's really not that complex. Airlines have been doing this for years."

> ***"Our dream is to bring local control and management closer to the holding company."***
>
> ***— Kenneth P. Kirchman***

Management Problem

Completion of the Dimension 5000 system is at least 2 1/2 years off. Meanwhile, Mr. Kirchman said he must confront the difficulty of developing qualified management.

"When we get to the next product, the question is not whether we have the capital to carry it through," Mr. Kirchman explains, "but do we have the management to handle everything?"

But relations with former managers have not always been so rosy at Kirchman.

A little more than a year ago, Bonnie McIntire Smith resigned as president of Kirchman Corp. shortly after Mr. Kirchman returned from a sabbatical in February 1985.

Two years ago, Omni sued a software company founded by former Omni Resources president Larry C. Prince. Kirchman Corp. charged that Prince's Lasine Financial Solutions stole corporate secrets and clients. Lasine countersued, saying Omni practiced unfair trade tactics. Parts of the suit are still outstanding, but two Lasine officials named in the suits have returned to jobs at Kirchman.

Even with the restructuring, the company has rehired 50 former employees in the past year, including a former chief financial officer who had been gone for six years.

"Decentralization had its advantages for us," Mr. Kirchman explains. "Centralization just seems to be the answer for us now to unify things so we can all move in the same direction." ■

Survey Shows Mainframe Distribution

In its equipment and software survey last year, TransData Corp. found that 3,959 mainframes were installed in 3,156 commercial banks, savings banks, and savings and loan institutions.

The summary table shows NCR Corp. computers are in 46% of those institutions, far more than IBM Corp. systems, which are in 34%. Burroughs Corp., now a part of Unisys Corp., was third, with 22%.

The totals in the table add up to more than 3,156 institutions and the percentages to more than 100% because some institutions have mainframes from more than one vendor.

Also, the 3,156 population differs from the bigger base numbers shown in the market-share tables for demand deposit account software and installment-/consumer loan software. The reason for this is that only 47% of the institutions covered by TransData run the software on host mainframes, while 40% use minicomputers and 2% use microcomputers. An additional 11% did not respond when questioned about the issue.

NCR is the principal host-computer vendor to small institutions. Of the 1,445 using its mainframes, 1,208 were banks with deposits of less than $500 million. By contrast, IBM had only 399 banks in that size group.

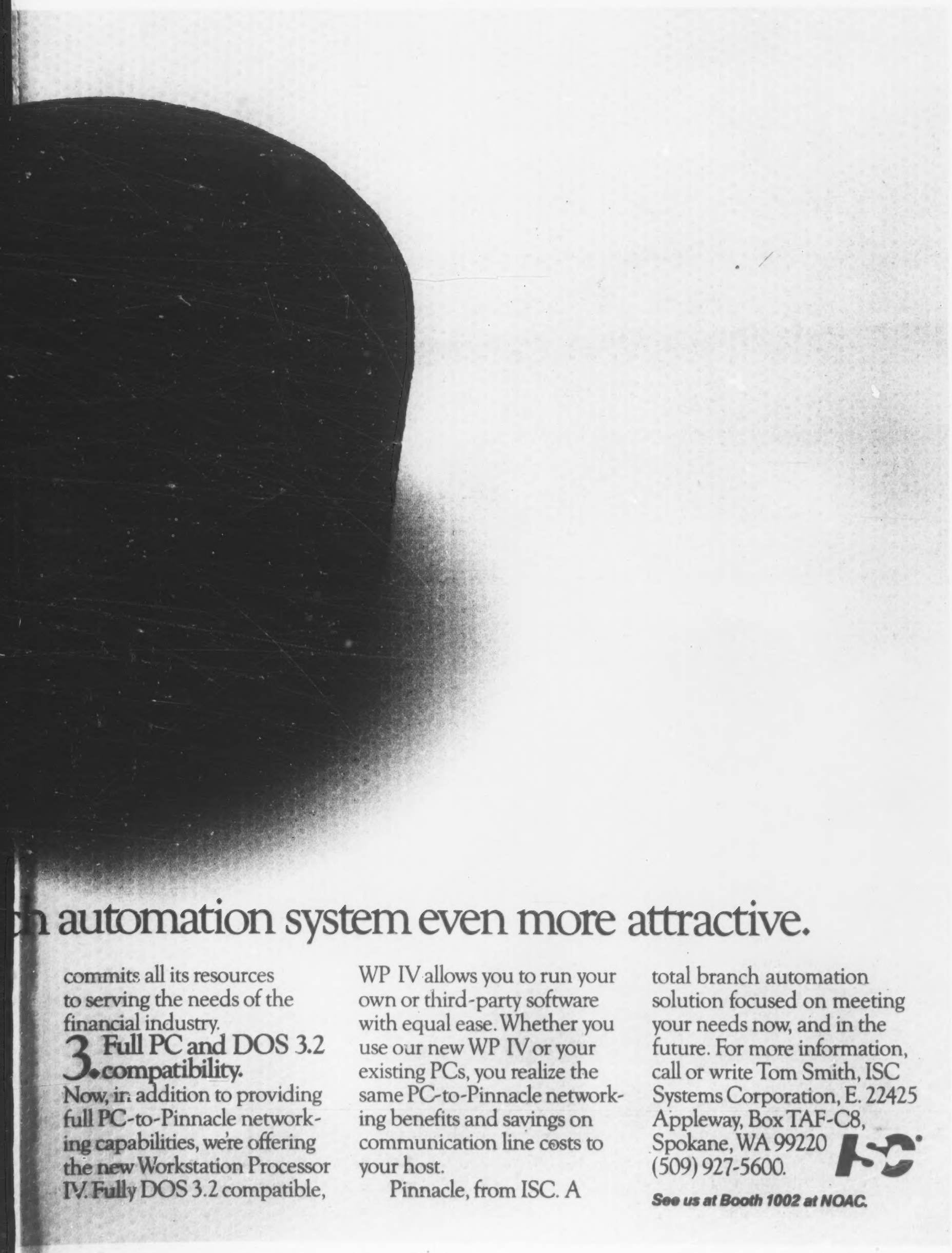
At the upper end — the 119 institutions with more than $2 billion in deposits — NCR was the vendor to only 15, or 13% of the market. But IBM's 3080 series was installed in 72 institutions, its 4300 in 36 institutions, its 3090 in 30 institutions, and other models were in yet more banks. Again, these numbers reflect multiple installations by some banks.

— David O. Tyson

Vendors of Host Mainframes At Banks and Thrifts

Vendor	Number	Percent
Amdahl	13	0.4
Burroughs	686	21.8
Honeywell	18	0.6
IBM	1,062	33.7
NCR	1,445	45.7
Other	170	5.4
Don't know/refuse to say	75	2.4

The survey in early 1986 included 3,156 institutions, some with more than one mainframe vendor.
Source: TransData Corp.



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Continued from Page 11

stead, the institutions have their data processing done remotely, either through holding-company affiliates or independent service bureaus.

Some observers believe the modest market penetration of in-bank computers into these activities is an opportunity for vendors. They see a trend away from service bureau processing toward banks doing it with their own computers and software. New systems are more powerful and versatile than their predecessors, and cost less. Some community banks now do what some big banks cannot. "In-house systems are outselling service bureaus five to one," says M. Arthur Gillis, consultant.

According to TransData, a research subsidiary of American Banker•Bond Buyer Inc. located in Salisbury, Md., more than 60% of all institutions do their data processing remotely, either through holding company affiliates or independent service bureaus, labeled "Third Party" in the accompanying tables. The remaining 6% to 8% either still handle the work manually or do not offer demand deposit accounts or consumer loans.

"As the cost of processing hardware drops and the capabilities of low-end systems rise, we are going to have more institutions that can justify bringing software in-house."

MTech, a subsidiary of MCorp., a Dallas-based bank holding company, is one of the biggest vendors of data processing services and makes a diametrically opposite forecast about the future of that business, as David LaGesse reports elsewhere in this section. (See page 13). It expects banks to get away from in-house processing.

Within the group that does its own processing, NCR furnishes the computers for 46% and the primary applications software for nearly a quarter, most of them small banks and thrifts.

TransData since 1981 has conducted an annual survey of equipment and software at banks and thrifts. The year-end 1986 project is still under way, so the latest available results are from the year-end 1985 survey.

The nationwide survey a year ago sampled 1,535 institutions and projected results across a population of 19,903 commercial banks, savings banks, and savings and loan associations. Credit unions were not covered.

Of the total sample, 47% of the institutions run applications software on host mainframes, 40% on minicomputers, 2% on microcomputers, and 11% did not answer that question.

TransData does not identify participating institutions but is releasing publicly for the first time the aggregate results on what it considers the two most basic software applications — demand deposit accounts and consumer installment loans.

As arrayed in the tables on this page and page 19, the results show the market share of applications software vendors in three size groups — institutions with less than $500 million deposits, between $500 million and $2 billion deposits, and more than $2 billion deposits.

NCR Corp. leads the overall head count, with a 23% share of both the deposits and installment/consumer loan systems.

International Business Machines Corp., an acknowledged computer giant in banking as well as in other industries, lags behind NCR in hardware at the low end of the size scale. However, it dominates the upper end, but does not sell applications software of its own. It strikes deals to market software developed by others, such as Hogan Systems Inc., Dallas.

But most of the banking applications software that runs on IBM machines either comes from other third-party vendors, such as Uccel Corp. and Systematics Inc., or is written in-house by banks.

As a matter of fact, about 11% of the institutions using their own computers write their own software for deposits and installment loan systems. For banks, the proportion is 9%. For thrifts, it is 24%, a surprisingly high figure since they gained checking account powers only in recent years and consumer lending powers even more recently.

The Market Shares

For demand deposit systems, the combined market shares after the 23% from NCR and 12% from in-house sources are Burroughs Corp. 8%, Florida Software Services Inc. (now part of Kirchman Corp.) 5%, Tymshare 3%, and Electronic Data Services 3%.

Another 3% identified IBM as their software vendor, despite the fact that IBM markets hardware, not software. Some of those who cited IBM may have been using the community bank system developed by NuComp Systems Inc., St. Paul, Minn. IBM was the exclusive NuComp marketing agent for two years, ending in April 1985. Or perhaps since the institutions had IBM hardware, they have assumed their applications software was IBM's, too.

H. Leon Majors 3d, research associate in the TransData financial systems and equipment division, said the survey until now has reflected respondents' perceptions, which can be faulty. This year TransData is doing a more detailed analysis of each software function.

At the upper end, the banks with more than $2 billion in deposits numbered 128 at the time of the year-ago survey. Of these, 106, or 83%, did their own data processing. Their applications software supports many more terminals, handles many more accounts, and costs much more than that of the small banks.

The top vendors of demand deposit account systems to this group are Hogan with nine; and Software Alliance, which markets Marshall & Illsley systems, with eight.

But 71, or more than 67%, of the top-tier banks process their demand deposit accounts on in-house software. These are the money center institutions with their own staffs of programmers. In some instances, they develop a system they consider saleable, so the

Demand Deposit Account Software

Vendors to Institutions Using Demand Deposit Account Software

		COMMERCIAL BANKS				THRIFT INSTITUTIONS			
	Total Population	Total Banks	Under $500M	$500M To $2B	Over $2B	Total Thrifts	Under $500M	$500M To $2B	Over $2B
BASE	5,915	5,140	4,804	230	106	776	599	120	57
Anacomp	11 0.2%	11 0.2%	5 0.1%	5 2.2%	1 1.1%				
Broadway & Seymour	96 1.6%	96 1.9%	96 2.0%						
Burroughs (Unisys)	493 8.3%	385 7.5%	380 7.9%	5 2.3%		107 13.8%	86 14.3%	17 14.1%	5 8.4%
Credit Card Systems	11 0.2%	11 0.2%	11 0.2%						
Cullinet	3 0.1%	2 ...		2 0.8%		2 0.2%			2 2.8%
Data Link	11 0.2%	11 0.2%	11 0.2%						
EDS	161 2.7%	160 3.1%	158 3.3%	2 0.8%		1 0.2%			1 2.5%
Florida Software (Kirchman)	304 5.1%	250 4.9%	205 4.3%	44 19.0%	1 1.2%	54 6.9%	42 7.0%	8 7.0%	3 5.3%
Hogan Systems	28 0.5%	24 0.5%	5 0.1%	9 3.9%	9 8.9%	5 0.6%			5 8.1%
IBM	155 2.6%	140 2.7%	133 2.8%	5 2.3%	1 1.2%	16 2.0%		13 10.5%	3 5.3%
M&I (Software Alliance)	8 0.1%	8 0.2%			8 7.5%				
Management Science America	1 ...	1 ...			1 1.2%				
MTech	1 ...	1 ...			1 1.3%				
NCR	1,366 23.1%	1,175 22.9%	1,174 24.4%	2 0.8%		191 24.6%	183 30.6%	4 3.5%	3 5.6%
Pacesetter Systems	2 ...	2 ...		2 0.8%					
Systematics	69 1.2%	45 0.9%	26 0.5%	18 7.7%	1 1.2%	23 3.0%	15 2.4%	4 3.5%	5 8.1%
Tymshare	167 2.8%	152 3.0%	150 3.1%	2 0.8%		15 1.9%	15 2.4%		
Uccel	39 0.7%	38 0.7%	15 0.3%	21 9.1%	1 1.3%	2 0.2%			2 2.8%
Weiland Software	40 0.7%	36 0.7%	10 0.2%	25 10.7%	1 1.3%	4 0.5%		4 3.5%	
In-House	698 11.8%	480 9.3%	324 6.8%	84 36.6%	71 67.5%	218 28.1%	159 26.5%	44 36.8%	15 27.0%
Other	2,250 38.0%	2,111 41.1%	2,099 43.7%	5 2.2%	7 6.2%	139 18.0%	100 16.7%	25 21.1%	14 24.2%

Institutions Not Purchasing Demand Deposit Account Software

		COMMERCIAL BANKS				THRIFT INSTITUTIONS			
	Total Population	Total Banks	Under $500M	$500M To $2B	Over $2B	Total Thrifts	Under $500M	$500M To $2B	Over $2B
BASE	11,988	9,295	9,191	82	22	2,692	2,507	167	18
Holding Company/Affiliate	1,900 15.8%	1,799 19.4%	1,754 19.1%	40 48.9%	5 23.9%	100 3.7%	86 3.4%	15 8.7%	
Manually Process	416 3.5%	361 3.9%	361 3.9%			56 2.1%	56 2.2%		
Third Party	8,914 74.4%	6,690 72.0%	6,665 72.5%	26 31.3%		2,224 82.6%	2,105 83.9%	111 66.1%	9 49.0%
Don't Offer Such Accounts	346 2.9%	171 1.8%	171 1.9%			175 6.5%	175 7.0%		
Don't Know/Refuse to Answer	411 3.4%	274 3.0%	241 2.6%	16 19.8%	17 76.1%	137 5.1%	86 3.4%	42 25.2%	9 51.0%

Data is based on a survey conducted over several months, centered on February 1986, of a sample of 1,535 institutions projected across a total population of 17,903 U.S. commercial banks, savings banks, and savings and loan associations.

Source: TransData Corp.

Tracking Bank Equipment and Software

TransData Corp., which did the survey reported in this section, is a research firm located in Salisbury, Md., that was founded in 1979 and acquired by American Banker-•Bond Buyer Inc. in 1984.

It has conducted this annual survey of bank equipment and software since 1981; this is one of the many studies it does of banking, other financial services, and their providers.

The year-end 1986 equipment and software survey is still in progress. The tables published here present some of the data from the year-end 1985 survey.

This is the first time TransData has released aggregate results of the survey in such detail. It does not disclose the identity of respondents.

The firm surveyed 1,535 institutions, including 1,304 commercial banks and 231 thrifts. The results were projected across a total population of 17,903 institutions, including 14,435 commercial banks, 549 mutual savings banks, and 2,919 savings and loan institutions.

Within each of these groups, TransData explains, it established five strata based on total institution deposits reported to the Federal Deposit Insurance Corp. (FDIC). It set no deposit size cutoff at the bottom, so the survey encompasses institutions down to the $500,000 minimum deposit size needed for FDIC coverage.

"Within each of the deposit strata," TransData says, "the proportion of institutions to be surveyed was calculated and established based on a target confidence level for population projections of 80%, with a confidence interval of no more than 2% error."

The tables show three size groups for both banks and thrifts. The full TransData report breaks them down into seven size groups for banks and six for thrifts. The percentages of total size populations surveyed ranged from 2.4% for one of groups of small thrifts up to 89% for the nine banks with more than $20 billion in deposits at the time.

TransData says the overall response rate — the percentage of institutions originally contacted that completed the survey without being replaced because they refused to complete it — was more than 85%, except for thrifts with more than $2 billion in deposits. A 48% response rate was achieved there.

The TransData staff of 35 professional interviewers conducted the survey by telephone. Data entry, editing, and analysis was done on the firm's own computers.

TransData is located at 530 Riverside Dr., Salisbury, Md., 21801. Telephone: (800) 562-5652.

— David O. Tyson

bank itself becomes a vendor to others. M&I Marshall & Ilsley Bank, Milwaukee, is the preeminent example.

Bringing Software In-House

Mr. Majors said a lot of the in-house software is written from scratch, and a lot that was originally bought from vendors has been modified so heavily over time as to lose its original identity.

"Many use spaghetti code: rewrites on top of rewrites on something that somebody wrote 20 years ago," he said.

"Vendors are going after them for a fourth-generation language that allows them to rewrite more efficiently. We now have fourth-generation packages that you can use to generate in-house software more easily than [you could] a year ago."

NCR itself has introduced such capability, which it calls Element Structured Programming, in its new Universal Financial System.

Whether the processing ends up being done on vendors' software or on what are known as roll-your-own systems, the trend is to bring the processing into the bank.

"As the cost of processing hardware drops and the capabilities of low-end systems rise, we are going to have more institutions that can justify bringing software in-house," Mr. Majors said.

"It's going to change the consistency and makeup of the market. The overall effect is going to be an increase in the distribution of these various types of software. Part of it is the thrust toward distributed data processing. If that works, it will drive a tremendous increase in the software market."

William G. Seymour, vice chairman of the software development and consulting firm of Broadway & Seymour, Charlotte, N.C., notes that software systems for small and medium-size banks these days tend to be fully integrated and of a more advanced design than some of the larger systems.

"We work with large and small banks and are acutely aware that when we get through installing an independent bank, they often have more capability than large banks in such basics as knowing the profitability of customers and the ability to keep a customer information file in good, clean order," he said.

"Big banks have more sophisticated products and get into more exotic applications. But in mainstream financing, the community bank likely will have more capability than the larger banks. When you get that kind of capability and it's easier to use and you can put it in-house under your own control, we think that's what's driving the trend."

— David O. Tyson

Installment/Consumer Loan Software

Vendors to Institutions Using Installment/Consumer Loan Software

		COMMERCIAL BANKS				THRIFT INSTITUTIONS			
	Total Population	Total Banks	Under $500M	$500M To $2B	Over $2B	Total Thrifts	Under $500M	$500M To $2B	Over $2B
BASE	5,839	5,068	4,740	230	98	771	614	111	46
Anacomp	46 0.8%	46 0.9%	10 0.2%	19 8.3%	17 17.6%				
Automated Financial Systems	1 ...	1 ...			1 1.4%				
Broadway & Seymour	96 1.6%	96 1.9%	96 2.0%						
Burroughs (Unisys)	473 8.1%	357 7.0%	348 7.3%	9 3.9%		116 15.1%	100 16.4%	13 11.3%	3 6.9%
Credit Card Systems	11 0.2%	11 0.2%	11 0.2%						
Cullinet	5 0.1%	3 0.1%		2 0.8%	1 1.3%	2 0.2%			2 3.4%
Data Link	11 0.2%	11 0.2%	11 0.2%						
EDS	160 2.7%	158 3.1%	158 3.3%			1 0.2%			1 3.0%
Florida Software (Kirchman)	333 5.7%	257 5.1%	200 4.2%	49 21.4%	8 8.0%	76 9.8%	42 6.9%	27 24.4%	6 13.8%
Hogan Systems	6 0.1%	6 0.1%	5 0.1%		1 1.2%				
IBM	127 2.2%	122 2.4%	117 2.5%	5 2.3%		4 0.5%		4 3.8%	
MTech	1 ...	1 ...			1 1.4%				
NCR	1,348 23.1%	1,159 22.9%	1,157 24.4%		1 1.3%	189 24.5%	183 29.9%	4 3.8%	2 3.4%
Shaw Systems	20 0.3%	20 0.4%		12 5.3%	8 8.2%				
Sterling	5 0.1%	5 0.1%		5 2.2%					
Systematics	69 1.2%	45 0.9%	26 0.6%	18 7.7%	1 1.3%	24 3.1%	15 2.4%	4 3.8%	5 10.3%
Tymshare	160 2.7%	145 2.9%	145 3.1%			15 1.9%	15 2.4%		
Uccel	69 1.2%	63 1.2%	15 0.3%	37 16.0%	11 10.9%	6 0.8%			6 13.4%
Weiland Software	5 0.1%	5 0.1%	5 0.1%						
In-House	620 10.6%	438 8.6%	324 6.8%	74 32.0%	39 40.4%	183 23.7%	144 23.5%	25 22.7%	14 29.4%
Other	2,272 38.9%	2,116 41.8%	2,109 44.5%		7 6.8%	156 20.2%	115 18.7%	34 30.2%	8 16.4%

Institutions Not Purchasing Installment/Consumer Loan Software

		COMMERCIAL BANKS				THRIFT INSTITUTIONS			
	Total Population	Total Banks	Under $500M	$500M To $2B	Over $2B	Total Thrifts	Under $500M	$500M To $2B	Over $2B
BASE	12,064	9,367	9,255	82	30	2,697	2,493	176	29
Holding Company/Affiliate	1,841 15.3%	1,756 18.7%	1,712 18.5%	38 46.7%	5 17.5%	86 3.2%	86 3.4%		
Manually Process	491 4.1%	372 4.0%	372 4.0%			119 4.4%	118 4.7%		1 4.9%
Third Party	8,795 72.9%	6,681 71.3%	6,659 71.9%	22 27.0%		2,114 78.4%	2,014 80.8%	92 52.3%	9 31.5%
Don't Make Such Loans	511 4.2%	272 2.9%	267 2.9%	5 6.6%		239 8.9%	190 7.6%	42 23.8%	8 26.5%
Don't Know/Refuse to Answer	426 3.5%	287 3.1%	246 2.7%	16 19.8%	25 82.5%	138 5.1%	86 3.4%	42 23.9%	11 37.0%

Data is based on a survey conducted over several months, centered on February 1986, of a sample of 1,535 institutions projected across a total population of 17,903 U.S. commercial banks, savings banks, and savings and loan associations.

Source: TransData Corp.

American Banker 20
June 2, 1987

TECHNOLOGY REVIEW

NCR Corp. Gives IBM A Run for Its Money

With its new software, NCR competes with IBM for dominance in the bank automation arena.

By John Byczkowski

THE NCR CORP., which started out as a cash register maker 103 years ago, today is the biggest obstacle to International Business Machines Corp.'s (IBM) overwhelming domination of bank automation.

The Dayton, Ohio, company reigns supreme among community banks and thrifts. Its host mainframe computers outnumber IBM's in that sector. And its own applications software is installed on more of them than any other vendor's.

For the NCR enterprise, which has operations worldwide and 63,000 employees, banking and financial services is the largest customer group. Last year some 31% of NCR's more than $2.5 billion in sales and rentals of computer hardware and software came from the financial services industry.

Explaining the company's sales, NCR managers speak of the "solution sell." In dealing with bankers, the company can sell entire packages of both hardware and software to address virtually any area of the bank — branch automation, item processing, work stations, customer files.

Kevin M. Karcher

Recognizing that it is software that sells hardware, NCR since the early 1970s has relied on two account processing programs of its own to sell its hardware to banks. One program is Customer Information File, or CIF, for commercial banks. The other is a similar program for savings and loan associations, called Customer Loan and Savings System (CLASS).

The programs have been a success. With CIF, CLASS, and the company's Banker 80 software line for small banks, NCR has been able to sell 1,575 host mainframe installations to 1,445 institutions, according to TransData Corp. of Salisbury, Md., a market research subsidiary of American Banker Inc. IBM is second with 1,324 installations in 1,062 institutions.

But the age of bank consolidation has taken its toll on CIF and CLASS, and exposed weakness in NCR's strategy. NCR had no product for big banks, which tended to use IBM systems. And when big banks have bought small banks that use NCR products, the loser has been NCR.

At one time, nearly 1,000 institutions used CIF and CLASS. The number is now down to "several hundred," with 80% to 90% of the loss attributable to mergers and acquisitions, said Peter J. Augusta, assistant vice president in charge of marketing and development for NCR's Universal Financial System (UFS) in the financial systems division.

The other 10% to 20% of the loss is blamed on customers switching to more up-to-date software. "Sometimes they'd say 'We want something new,' and we didn't have new," Mr. Augusta said.

CIF and CLASS "are quite old, so we've been in a stagnant position for a while," he said, putting that period at about five years.

With a new product under development, NCR has been trying to keep its current users as up-to-date as possible, with new CIF enhancements and new hardware, he said.

The Universal Financial System

For NCR, a solution is on its way. On April 13, NCR told its users' conference in Chicago that its new product, UFS, would be released soon.

Like other vendors, NCR has suffered delays in the introduction of such an integrated banking system. Mr. Augusta said CIF and CLASS were supposed to be replaced earlier, but UFS took a lot longer to develop than anticipated.

Now the product has been released. Mr. Augusta said NCR salesmen are selling it, there are a few orders in for it, and UFS will be generally available in September or October.

The system is undergoing a beta test at seven sites, including Jefferson Data Services in Charlottesville, Va., and The First FA, a savings and loan association based in Orlando, Fla. In Mr. Augusta's view, the system puts NCR back in the ball game, allowing the company to update its current customer base and win new users.

NCR will not discuss the number of employees in its bank software division or the division's revenue or market share. But the company, long successful among smaller institutions, had begun to lose market share to others, particularly IBM. Now it may be recovering some of the market.

"We saw some erosion at one point," said Jack Ivers, vice president for Cincinnati-based Software Clearing House, the largest seller of third-party software for NCR and Unisys computers.

"But we've had some NCR shops convert to IBM, and we have had some coming back now. What happens is that you're looking at a minimum investment of $1 million to go to IBM from NCR, and then you have to double or triple your staff to support the operating system.

"The size of a staff required for an NCR machine, compared to a comparable IBM, is far smaller. And I think NCR's philosophy is to try to keep things such that it doesn't require a whole staff of systems programmers."

That philosophy is embodied in the new UFS program, Mr. Augusta said. UFS software will cost $275,000 to $550,000, depending on the size of the institution purchasing it.

New Products, No Programming

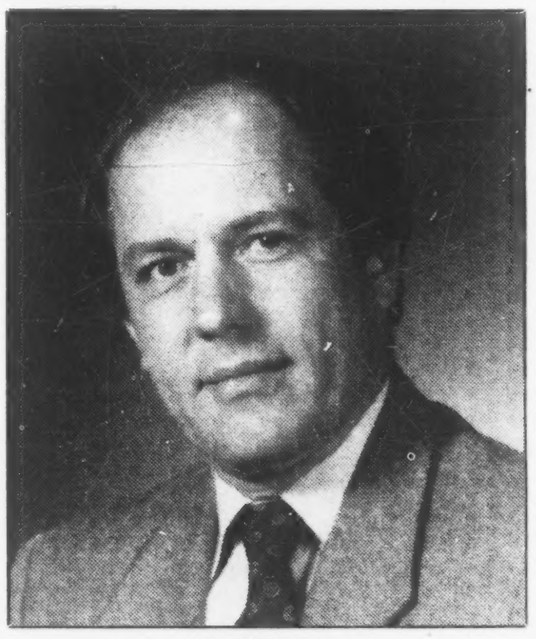
Mr. Augusta describes UFS as "an integrated package that handles deposits and loans, has a central information file concept to it, is transaction-driven," and allows either real-time or memo posting.

UFS can serve as a common data base for a general ledger; and can be interfaced with general ledger systems from Management Science America Inc. and Financial Technologies Inc. of New York, as well as NCR's own general ledger. It will run on NCR's new 9800 mainframe, as well as on older NCR machines, such as the models 18500, 8600, and 8800.

UFS is designed to allow bankers to establish new types of deposit and loan products without doing a lot of programming. A marketing manager and a systems analyst can sit down at a personal computer and, from code already in the machine, create new bank products, working all the while in plain English.

"It puts the banker in charge again, instead of the data processing guy," Mr. Augusta said.

The UFS program features Element Structured Programming (ESP), in which the code is organized into blocks, or elements, that perform specific tasks. The UFS system contains hundreds of such elements.



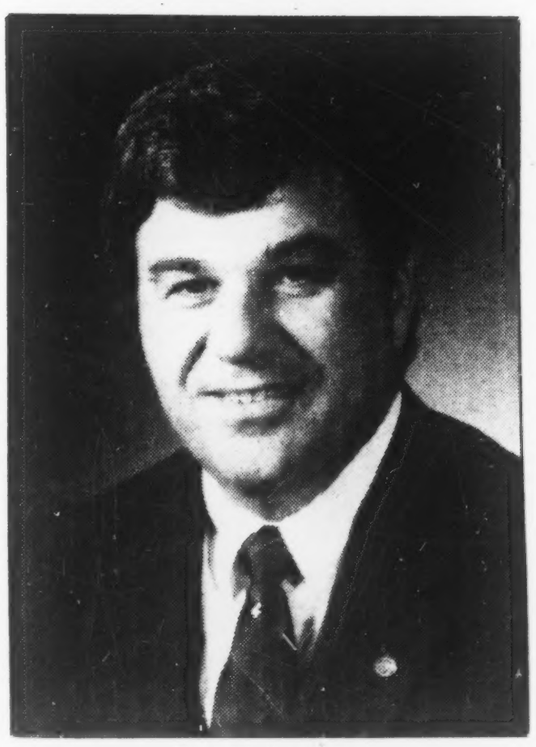
Win Billingsley

Rather than creating a new product from scratch, users select the elements required for a specific bank product and put them in the proper sequence. This is accomplished through a series of plain-English menus. The user selects from the menus the elements he needs for the product.

For instance, consider the NOW account. "We'd have to write a whole set of code before this, even though we know the NOW account is a demand account with some interest payments, some interest accruals in it," Mr. Augusta said. "Rather than go through the savings subsystem — which has all that interest-accrual logic — we pull it out and throw it into demand deposit accounts. We end up writing it again.

"With ESP, we can simply go and look at all our demand deposit logic and then call up the savings and accrual logic, and be able to pick up by number those elements we want to use to accrue interest for a demand account, and we could then move them over.

The program will not eliminate the writing of code. Some new elements that are not contained in UFS will have to be written, but even that will be easier, Mr. Augusta said. UFS is written in COBOL, a common business computer language.



Peter J. Augusta

The system, Mr. Augusta said, will reduce the time it takes to bring new products to the market. The backlog on work in a bank's data processing department averages two years, he said. Because UFS eliminates much of the writing of code, the time to bring out new bank products will be in terms of weeks and months rather than months and years, he said.

The system will allow users to control their data processing staffs, keeping them at a constant level, if not reducing them somewhat, Mr. Augusta believes. "Low-level coders will not be necessary to the extent that they're necessary today," he said.

Additional capabilities for UFS are in the works. One is improved report writing, including customer profitability. Mr. Augusta would not discuss the other capabilities.

But Win Billingsley, assistant vice president of NCR sales west of the Mississippi River, said bankers today want software to have much more than operational value.

"They want it to be an integral part of how they improve the profitability of the bank," he said.

"They want to have reports, and information that tells them whether they're making money or whether they're losing money. They want to know is Joe Smith a good customer or a bad customer? Who are my top 1,000 most profitable customers, and who are my 1,000 least profitable customers? They want software that gives them that ability to look at customers on a profitability basis."

UFS is aimed at medium-sized banks, those with assets of $250 million or more, though Mr. Augusta said NCR is not aiming at the top 100 banks in the nation. The major competitors include Hogan Systems Inc. on the high end, where NCR seldom ventures; Florida Software, which is now part of Kirchman Corp.; Uccel Corp.; Systematics Inc.; and Modular Information Systems Inc. of Orlando, Fla., whose product is called Miser.

NCR will attempt to convert current customers to the new system, as well as win new customers.

"There are users out there who are looking for some kind of solution, and they need both a hardware and software solution," Mr. Augusta said. "And there are some IBM banks who have software that's antiquated that we'd like to move, and we can compete directly with some of the software houses that supply IBM software."

The Banker 80 Packages

In the Banker 80 product line, aimed at banks with less than $250 million in assets, are NCR's Banker 80 and Banker 80-II packages. The former is designed for smaller banks in that niche, where one person in the bank is the primary user. The latter is designed for the larger banks in that niche, those that have more employees and a higher degree of specialization. NCR has more than 1,000 installations of the

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John Byczkowski is assistant business editor of the Cincinnati Enquirer.

Banker 80 software.

Kevin M. Karcher, director of account processing for NCR's financial systems division, said competition in that small-bank niche is tough and getting tougher, with 20 companies — some national, some regional — seeking the business.

Small banks, Mr. Karcher said, are demanding more sophisticated tools to help them run their banks and produce better report writing. They are also seeking the ability to manage new investment opportunities, such as selling mortgages on the secondary market, and better tools for asset-liability management.

But in an age of consolidation in banking, the Banker 80 line has taken on a new significance, Mr. Billingsley said.

"There's developing a strong will for independent banks to stay independent," he said. "They don't want big banks doing their processing work for them, because they have the advantage of knowing exactly the details of the bank. So [other] than processing through the big banks, they'll put in their own system."

In its push to remain a force in the bank computing business, NCR is known for encouraging development

of software by third parties. Mr. Karcher said that right now, for users of the Banker 80 products, the best program available for managing sales of mortgages in the secondary market is a third-party product. NCR is negotiating a licensing agreement with the developer, whom NCR declines to identify.

"We really try not to compete with the third-party developers," Mr. Augusta said. "We try to supply meat-and-potatoes applications, the real guts applications, while allowing third parties to develop a lot of ancillary products."

Cooperating With Developers

Mr. Ivers, of Software Clearing House, said NCR "is far and away more cooperative" with third-party developers than many other companies.

"In the past five years, they've been increasingly cooperative," he said. "They give us discounts on software. They release operating system information. We have our conflicts. We compete against NCR's UFS and Banker 80 with our Super CIF. But on the other hand, they realize the competition is really good for them. They've been very cooperative."

For the customer, the decision to buy new software is filled with anxiety, Mr. Billingsley said.

"When you put a piece of software in a bank, you are impacting every customer and every organization in that bank," he said. "So you are in effect betting the company. It's a big decision.

"These things take a lot of study. The selling cycle is six to 18 months, and I have grave concern about people who make the decision in six months. I wonder if they really know what they're buying. Have they really thought about the implications of converting to it? Do they really have an education plan for their employees?"

Mr. Billingsley advises banks to involve the key department heads in the decision to buy new software.

"No one guy is smart enough to be able to evaluate all that software's capabilities," he said. "You've got to have the loan guy look at the loan module to see if it does everything he wants to run his loan department. You need to have the savings guy look at the savings module.

"Many times today, the decision is made by the computer guy, who understands computers but knows very little about banking." ■

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TECHNOLOGY REVIEW

Banks in the Business of Selling Software

By Yvette D. Kantrow

IF IT'S GOOD enough for us, then it's good enough for you.

That seems to be the sales pitch used by banks that sell their major software systems to other institutions.

Whether or not banks should involve themselves in nonbanking endeavors has been debated for more than a decade. But no matter what the industry watchers say, many banks are involved in and committed to the business of selling software.

And it is no wonder. Some two-thirds of the nation's largest banks write their own demand deposit accounting software. More than a third write their own loan systems. These figures, supplied by TransData Corp. of Salisbury, Md., indicate that banks are spending a bundle on developing software. Vending the results of their efforts seems like a logical way to recover some of those costs.

But, warns Robert A. Heckman, an executive vice president of MTech Corp., unless a bank makes a firm commitment to the business of selling software, it would be wiser not to enter that market at all. MTech is a partly owned subsidiary of Dallas-based MCorp, the parent of MBank.

"Run it as a business, not a cost center," he says. A commitment to selling software involves more than merely saying software development is very expensive so lets recover those costs by selling, and let's do it in our spare time, he adds.

Mr. Heckman's sentiments are echoed by other bankers in the software business. Kerry Ryan of Mellon Bank Corp. also stresses the importance of a commitment to the business. And, he adds, it is more than just a strategic or management commitment — it is a financial one.

"You must be of a certain size to sustain the business," he says. "We are spending a lot of money now and it won't be the end of it." Mellon is spending approximately 20% of its service bureau's data processing revenues on product development, he adds.

Other problems can arise when banks enter the software business. Los Angeles-based Security Pacific Corp., for example, found that when it had to support the products it was selling outside the company, it was at the expense of users within its own organization. Security Pacific says it remedied that problem by seeking out external vendors to distribute its products to the marketplace.

Marshall & Illsley Corp., the parent of M&I Marshall & Illsley Bank in Milwaukee, has followed that approach for some time now, selling its products through Software Alliance Corp.

What follows is a brief look at the software entities of the four bank holding companies mentioned here. Each has its own strategy and philosophy for entering the software business. But they share one common piece of ground. When asked how being a bank influences their business, they all say it is a tremendous help.

Perhaps Mellon's Mr. Ryan sums it up best: "We're related to a bank holding company. We know what bankers need." ■

Yvette D. Kantrow is a writer for American Banker.

Mellon's Golden Opportunity

ASK A BANK WHY it would want to sell its in-house software to other institutions and, more likely than not, the given reason will be to recoup steep development costs. But at Pittsburgh-based Mellon Bank Corp., that is not the case.

Mellon, a longtime major player in data processing services, is now gearing up to enter the integrated banking software scene. But the system it will be offering is not one it developed totally in-house. Rather, it is one it purchased to run in the Mellon Datacenter.

In February 1986, Mellon Bank Corp. acquired Carleton Financial Corp., sole owner of Data-Link Systems. Data-Link, based in South Bend, Ind., is both a service bureau and licenser of integrated banking systems. It is best known for its mortgage processing product, currently licensed by approximately 25 banks, including Citibank and Bank of America.

Mellon is now finetuning Data-Link's offerings, and plans to market them this fall. Its strategy largely depends on converting its service-bureau clients to licensees.

"We found Data-Link when we were looking for a new software architecture for the Datacenter," says Datacenter head Kerry Ryan. "We felt some of our software had to be updated for the future, and we scoured the nation for an alternative." Mellon Datacenter currently serves 270 bank clients.

Mr. Ryan, a Mellon Bank senior vice president, stresses that Mellon was not in the market for a software company — just a loan system — when it stumbled upon Data-Link. However, he adds, entering software sales was part of Mellon's long-term strategic plan. With Data-Link, he says, Mellon felt it had found the perfect avenue for doing so.

For one thing, Mellon was impressed with Data-Link because it offered an integrated loan system that Mellon says works. This is no small feat, considering that loan modules are often cited as the Achilles heel of integrated banking packages. Loan systems that did not work properly caused financial troubles for Anacomp Corp. and Hogan Systems Inc.

"We service so many different banks that we have to supply so many different features and functions," Mr. Ryan says. "This loan package allowed us to modify our system in a simplistic way."

Mr. Ryan credits Data-Link's systems architecture with supplying function flexibility. According to Mr. Ryan, the architecture found in all of Data-Link's products provides an overall framework that enables components and features to be looked at in the context of the entire system.

Since Mellon's acquisition of Data-Link, the Datacenter has begun servicing approximately 25 clients on Data-Link's loan software. Mr. Ryan describes these banks as those that sell specialized loans. It has licensed the system to five institutions, including a large thrift in Texas and a $3 billion bank holding company in Denver.

Currently, Mr. Ryan says, the Mellon Datacenter has "been taking the basic software and adding additional resources and a lot of money to it to build it into a total product." The results of those efforts will be marketed to other institutions this fall. It will also be employed by both the Mellon Datacenter and Mellon Bank.

While other data processors, such as MTech, scoff at the integrated banking software market, Mellon views it as a golden opportunity to gain more luster from an economy favoring bank mergers and acquisitions. As banks become larger, Mr. Ryan says, they will look to bring their processing services in-house. Mellon is looking to remain its clients' supplier, even when they outgrow service bureaus.

"Service bureaus traditionally cater to community banks. We've been servicing the high side of that market, with most of our clients in the $300 million range," he says. Because of what Mr. Ryan terms "mergermania," many of those clients are going to grow into large banks very shortly and require their own software tools.

"As our bank customers become $1 billion to $2 billion banks, they ask to license our software in a turnkey type fashion," Mr. Ryan says. "They find installing what we use in their own shop an attractive alternative." ■

Change in Strategy Utilizes Distributors

SECURITY PACIFIC Automation Co. recently changed its strategy regarding the sale of its software, and interestingly, its approach is now similar to the one subscribed to by M&I Data Services. While the company once marketed its software directly to outside users, it now looks to other vendors to sell its wares.

Security Pacific Corp. created the automation company in September 1984, at a time when many banks were abandoning the data processing business. Aside from providing data processing services, it also began to offer software and telecommunications services. From the beginning, the company was more or less guaranteed at least one substantial customer — Security Pacific National Bank.

But Security Pacific, like other banks pouring hefty sums of money into technology development, looked for other ways to recover some of its development costs. And selling its products looked like the logical way to do that.

However, after bringing several products to the external marketplace, problems soon arose, says James E. Watt, vice president and director of software services for the company.

"We wanted to use the same people that developed the products to support them when we sold them," Mr. Watt says.

More than 1,000 of the company's 3,800 employees are development and software professionals. "But we didn't want to degrade the service to our users within the bank," he says.

Unfortunately for Security Pacific, this is what eventually happened. The automation company soon found that it could not offer a high level of service inside, as well as outside, the bank. There simply were not enough product developers and supporters to go around, Mr. Watt says.

In addition, he says, "during 1986, we looked at the specific goals of our company and realized that the bottom line we were supplying to the corporation wasn't as good as we felt it could be."

So, at the end of 1986, Security Pacific changed its strategy. "We decided to work with external vendors that can act as distributors for us," Mr. Watt says.

Other changes took place in 1986 as well. For one thing, DuWayne J. Peterson, a Security Pacific executive vice president who chaired the automation company, moved to Merrill Lynch & Co. Mr. Peterson, who is credited with masterminding Security Pacific's move into the telecommunications business, was replaced by John P. Singleton, who previously served as president under Mr. Peterson.

Security Pacific saw the first fruits of its search for outside distributors in March. That is when the company struck a deal with Software Alliance Corp. of Berkeley, Calif. Under that agreement, Software Alliance — best known for marketing M&I's software line — will sell Security Pacific's online item processing reconciliation and adjustment system. Similar deals between Software Alliance and Security Pacific are expected to follow.

According to Mr. Watt, Security Pacific hopes to have somewhere between five and ten distributors selling about 20 of its products by the end of 1987. Because Security Pacific offers a heterogeneous selection of software products, Mr. Watt says, it will be looking for numerous distributors.

"We try to match our products with vendor strengths," Mr. Watt says. "Who we negotiate with depends on what type of products we are trying to sell. Of course, we make sure that our products are not in competition with their product lines."

Pressed to describe Security Pacific's software product mix, Mr. Watt stresses its variety. Rather than choose a target market it wants to sell to, the corporation considers any product it develops for its own use fair game to be sold elsewhere — as long as it is determined not to provide Security Pacific with a competitive edge.

Products designed to address a problem so unique to Security Pacific that they would be of little use to others also are kept away from the market.

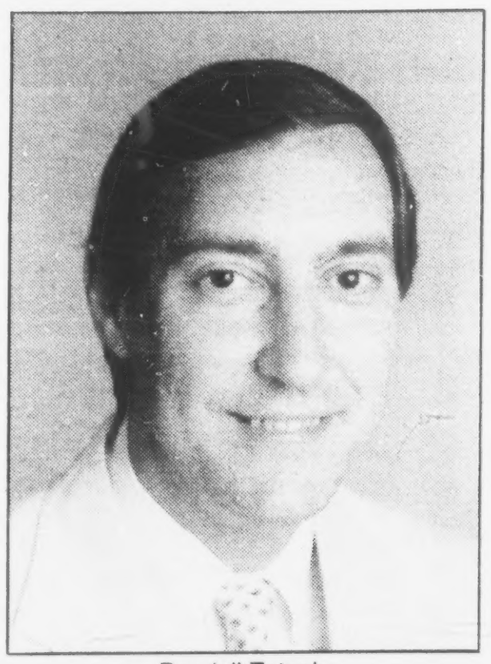
As a result of this approach, Security Pacific's software line consists of both applications software and utility products. It offers software for microcomputers, minicomputers, and mainframes. The line is so diversified, Mr. Watt adds, that it includes products that can be used by businesses outside of the financial services arena. ■

Selecting Software

WITH A GLUT of software vendors hawking their wares, choosing the right major applications system is not easy. Vendors speak a language speckled with terms like "user friendly," "responsive," and the ever-popular "state-of-the-art." The words sound glorious rolling off of the tongue of a savvy software marketing executive, but they really do not say much about a system.

So how does a banker wade through the jargon and choose a system that has more than just a good sales pitch?

At The First National Bank of Atlanta, Randall Teteak is a vice president in charge of the bank's retail systems development. When a product group in the retail bank needs a system, it very likely looks to Mr. Teteak's unit.



Randall Teteak

Mr. Teteak has assembled a list of criteria designed to guide his department's software choices. The process, he says, is not a simple matter. Rather, it is filled with compromises and changing expectations.

"We look for a product that best meets our business requirements as defined by a project team," Mr. Teteak says. "We may not find one that meets 100% of those requirements. But we may find one that can meet 70% to 80% of them."

But business requirements are not the only ones to address. Technical requirements are just as important.

"Software that satisfies business needs but requires additional hardware expenditures may not at all satisfy a bank's overall objective and project budget," Mr. Teteak says.

"We might have to go with a system that meets only 65% of our business requirements but all of our technical ones. Some tradeoffs may be necessary, depending on the features and flexibility of the package."

After examining a number of offerings, Mr. Teteak's group usually identifies about three packages that meet an adequate percentage of the bank's business needs, plus its technical ones. At that point, the unit puts together a matrix for each possible package, examining the product from a business point of view, a technical point of view, as well as a cost point of view.

This evaluation can last anywhere from two to seven months. During that time, the group looks at how well various packages and vendors stand up against these criteria:

• Is the system state-of-the-art? First Atlanta's definition of this often-elusive term is twofold. From a technical standpoint, Mr. Teteak says, banks should look for a system that employs the latest proven technology available. Second, from a business standpoint, banks should look for a system that can adapt to the latest trend in its product area. A loan system, for example, should be flexible enough to accommodate any new loan offerings a bank may want to bring to the marketplace.

• Does it use your hardware resources efficiently? Mr. Teteak says a bank should look for a system that requires a minimum amount of its hardware resources.

• Is the product up and running at another institution? "A larger package should be in production at another bank," Mr. Teteak says. "No one likes to be a pioneer when it comes to using new software. You want to know that a package is debugged and error-free."

• Does the vendor have a good support program? "If a vendor has 15 different customer sites, it probably has a multitude of support personnel," he says. Smaller vendors may not be as well staffed. "Many vendors may support you on-site during initial installation," he adds. "Although some packages may not require that effort, that's always comforting to have."

• Does the vendor have good financials? "You want to do business with a reputable firm. Not someone who is building a system in his garage."

• Does the vendor offer a complete range of maintenance options? "Technology changes, the business changes, laws change. You need someone who can make those modifications on an ongoing basis commensurate with the movement of the industry."

• Does the system easily interface with your bank's other applications, particularly your demand deposit accounting and general ledger systems? "No system will automatically interface with everything, but consideration should have been given to easing other application interfaces," Mr. Teteak explains.

• What type of training programs does the vendor offer? Mr. Teteak points out that someone is going to have to train bank employees to operate the system.

• What type of conversion programs does the vendor offer? "Most organizations will already have some system in existence, whether it's manual or automated but antiquated. They have to convert that to a new one, and any assistance the vendor could offer would be a plus."

• What type of procedural documentation does the vendor supply? "Make sure the documentation is not only excellent on the operations end, but on the business end as well."

• Can you modify the system to meet your needs? Always try to get what is known as source code, Mr. Teteak says. Source code — the written statements that explain a program's logic — will provide the bank with an option to modify the software.

Selling Software

MARSHALL & ILLSLEY Corp., the $5 billion-asset holding company for M&I Marshall & Illsley Bank, has taken an unusual approach to selling its software to other institutions. The Milwaukee-based company operates M&I Data Services — a business that processes accounts for 370 banks nationwide. But when it decided to market the bureau's systems to other institutions, it looked outside its own organization to an established software vendor — Software Alliance Corp., Berkeley, Calif.

"When we made the decision in 1981 to sell our software, it was critical that we get out in the marketplace quickly," says Dennis J. Kuester, president of M&I Data Services. "Deregulation was in its heyday and we designed our systems to accommodate deregulation quickly."

M&I The faster M&I could hit the market, the better it would be able to use deregulation as a selling point, he reasons.

According to Mr. Kuester, marketing the systems through a vendor that already had the right bank contacts in place was the fastest way for M&I to strike the iron of deregulation while it was hot. Software Alliance, he says, had a list of clients that included the nation's largest banks — precisely the market M&I was targeting. It also had a trained sales force scattered around the country.

M&I bills itself as a provider of integrated banking systems. They include deposits and loan processing, customer information files, branch automation, wire transfer, and other smaller systems, such as those for profitability analysis. Software Alliance sells and installs the systems. M&I writes the programs and provides maintenance and development.

More than 35 banks have licensed M&I systems. That figure includes five of the country's 12 largest banks, Mr. Kuester boasts. TransData Corp., in its hardware and software survey a year ago, found that M&I's demand deposit accounting system was used in eight banks, second only to Hogan Systems Inc.'s system, which is installed at nine institutions.

M&I realizes the importance of using a bank's hardware resources efficiently, something he says other vendors often neglect. "Other systems designers don't have the responsibility of considering the need for hardware in a bank, so they don't design systems with the same efficiency," he says.

While M&I's bank affiliation has helped the company in some ways, it has presented some problems. But, Mr. Kuester is quick to add that they have been minor. For instance, because other banks have entered this business and then hastily retreated from it, potential customers sometimes question M&I's commitment to staying in.

"Some other banks have gotten out of the business and customers often question that. But we have some history here," he says.

For one thing, M&I joined Barnett Banks of Florida Inc. to design a trust system in the 1970s. Today, the same system is still in use and being sold by Dyatron. More important, Mr. Kuester says, M&I's agreement with Software Alliance also demonstrates the bank's commitment to the business.

"Software Alliance — that's their mission in life," he says.

Data-Processing Giant Targets Transaction-Oriented Business

ANY LIST OF BANK holding companies in the software business would not be complete without MCorp. Until recently, that Dallas-based company was the sole owner of MTech. Now, after an initial public offering of 20% of MTech stock in December, MCorp retains 80% of that data processing giant.

MTech MTech's ties to MCorp were never very tight, says Robert A. Heckman, MTech executive vice president for marketing. And that was true, he says, even in the days when MTech was wholly owned by MCorp.

"They encourage us, they want us to do well. They're also our single biggest customer, representing 29% of our business," Mr. Heckman says. "But they're close to us only in that they sit on our board. Physically, MCorp is 15 miles away from here."

MTech provides basic banking applications processing to more than 1,000 institutions. A recent study of the data processing business by Computer Based Solutions Inc. of New Orleans listed MTech as the number one provider in the country, by number of banks served.

But interestingly, the company chose not to sell the proprietary software — called the Bank Management Information System 2000 — that runs its clients' basic bank applications. It opted to sell its electronic funds transfer systems instead.

"Software sales is a very volatile business," Mr. Heckman explains, referring to software for primary banking applications. "Once you sell the system, there is not much revenue to be made off of it, other than on maintenance."

The only way to prosper in the primary applications market is to constantly re-invent your own product, he says. And even then, success can be elusive. To make his point, Mr. Heckman cites the troubles some of the major software vendors have experienced lately.

"Until Uccel got successful recently, nobody was doing that well," he quips.

MTech's philosophy involves going after a more transaction-oriented business — electronic funds transfer. The company develops, maintains, and markets an electronic banking software line under the name Action 2000. The line includes systems for electronic funds transfer, credit card, wire transfer, and credit union processing.

Its licensees include financial industry giants, such as MasterCard International; retailers, such as Lucky Stores; and petroleum companies, such as Exxon Corp. MTech is also well-known as the operator of the MPact automated teller machine network.

MTech plans to continue its 30% annual growth, with much of that coming from company buyouts. While most of those purchases will strengthen the company's already mammoth data processing efforts, some will contribute to MTech's electronic funds transfer software line.

Currently, according to Mr. Heckman, about 300 banks license MTech's electronic funds transfer software. He describes the company's customers as the large money centers and anybody in the $1 billion-asset range — a target market that in this era of mergers and acquisitions gets more fruitful every day.

Mr. Heckman adds that much of its new product development efforts are joint ventures between MTech and a bank customer. "An institution will come to us interested in whether we do something or not," he says. If what the bank is looking for seems viable, MTech will try to get that institution to partly fund its development.

Although MTech has always played down its relationship with MCorp, Mr. Heckman says, "we occasionally still get asked the question [by potential licensees], 'aren't we fraternizing with the enemy when we come to you?' But we've proven our confidentiality, so it's not such a big factor anymore."

The articles on pages 22 and 24 were written by Yvette D. Kantrow.